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E.O. 12958: DECL: 10/30/2013
TAGS: EAID EFIN ECON ETRD UN
SUBJECT: UPDATE ON DOHA FINANCING FOR DEVELOPMENT (FFD)
NEGOTIATIONS

Classified By: WILLIAM HEIDT FOR REASONS 1.4 (d) and (e)

¶1. (U) Summary. Delegations in New York have completed the first reading of the "zero draft" of the outcome document for the November 29 - December 3 Financing for Development Review Conference in Doha. The Egyptian and Norwegian co-facilitators for the FfD process hope to finalize the outcome document by November 26, although there is a significant chance negotiations will need to be finalized at the conference itself. The 2002 Monterrey Consensus was a breakthrough for the UN system on development issues because of its first-time emphasis on good governance and private sector growth, and stands as one of President Bush's legacies on development. We have accordingly staked out a number of strong positions in the FfD negotiations, most based on long-standing policy concerns but some for tactical reasons. An update on key issues in the negotiations follows in paragraphs 3-14. End Summary.

¶2. (C) The Conference takes place at a difficult time for the U.S. (during a transition while we are on a continuing resolution), and we have indicated that major new U.S. announcements are unlikely. The financial crisis and the

emerging G-20 summit process also limit our flexibility on many of the systemic issues under consideration. Nonetheless, we believe the conference should provide a valuable high-level forum for a discussion of the impact of the financial crisis, and other current development challenges, on developing countries. The conference also offers a chance to reiterate the importance of strong, private sector led growth and maximizing all sources of development financing. These messages were noticeably missing from the September 25 MDG High-Level Event, which overwhelmingly focused on foreign aid.

¶13. (U) The Doha outcome document will follow the same basic structure as the Monterrey Consensus, with an introduction followed by substantive chapters on domestic resource mobilization, foreign direct investment (FDI) and other private flows, trade, debt, official development assistance (ODA), systemic issues, and "staying engaged". The latter chapter deals with the FfD follow-up process. There is also a new section entitled "other new challenges and emerging issues" that covers FfD-related topics that have arisen since Monterrey.

Foreign Direct Investment and Trade

¶14. (C) Based on proposals submitted by various delegations during the first reading, we expect that we will be able to close the sections of the document dealing with FDI and trade without excessive difficulty, although the breakdown of the

Doha trade round has soured the atmosphere on trade issues and encouraged finger pointing.

Official Development Assistance

¶15. (C) We expect pressure on the U.S. until the very end of the process to agree to stronger language on the 0.7 percent of GDP target for ODA. We have indicated that we have no flexibility on this point, since agreeing to the 0.7 percent target would imply a massive increase of our current ODA levels, from approximately \$22 billion a year to more than \$105 billion. Also, although the current version of the outcome document contains favorable references to the Accra Action Agenda on aid effectiveness, the UK and some other delegations are concerned that the G77 will oppose it vigorously because the Accra process took place outside the UN and without universal participation. However, we believe that working with like-minded delegations we will be successful in keeping it in the document. We remain hopeful that we will be able to close this section before going to Doha by resorting largely to previously agreed language.

Debt

¶16. (C) Debt issues will be very tough because of a concerted effort by middle-income countries to win more favorable treatment of their debt (international debt relief processes to date have focused on least developed countries). There is also strong pressure to agree to a "sovereign debt workout mechanism" linked to the UN, a step we have indicated that we are not willing to consider. USUN is working closely with the Departments of State and Treasury and other delegations from Paris Club countries to advance our positions in this area.

Systemic Issues -- Complications From the Financial Crisis

¶17. (C) The current financial crisis is influencing the FfD negotiations strongly. Developing countries are legitimately worried about the impact of the crisis on their ability to fund development, and want the Doha outcome document to reflect their concerns. They also view the crisis as a once in a generation opportunity to take the U.S. down a notch and

increase the role of the UN in financial issues. The situation is complicated by European views (particularly those of France) regarding the nature of the November 15 G-20 summit on the financial crisis. In normal times, the EU would take positions very close to ours on issues related to the structure of the international financial system, but this year they are supporting uncharacteristically expansive

language.

¶18. (C) We have indicated that the U.S. believes the FfD process, which is dominated by foreign ministries, is the wrong place for detailed discussions that impact on financial markets. The current zero draft contains unacceptable language on a number of systemic issues, including reform of the IMF and World Bank, regulation of national financial markets, hedge funds, credit rating agencies, and the formulation of financial standards and codes. There is also a sweeping but ill-defined proposal for a global conference to "review the international financial and monetary architecture and global economic governance structures" that would clash with the more carefully targeted November 15 G-20 summit in Washington. We have succeeded in freezing the negotiations on many systemic issues until after the financial crisis summit.

¶19. (C) We are working with the Department of State to arrange a briefing by a senior administration economic official on the G-20 summit. We believe this will provide a useful opportunity to allow the UN Secretariat and the member states to feel included in the latest developments. It would also be a useful opportunity to meet privately with the co-facilitators to provide a candid statement of the U.S. position on several difficult issues contained in the text. In order to retain the upper hand on the systemic issues section, we recommend the Washington interagency team draft an extensive re-write of this section of the zero draft to table at our first, post-financial crisis summit negotiating session on November 18.

Staying Engaged -- Should We Do This Again?

¶10. (C) The final section of the Monterrey Consensus outlines the various mechanisms to review the 2002 Financing for Development conference, including a biannual high-level dialogue in the General Assembly, the annual ECOSOC Spring meeting with the Bretton Woods Institutions, and the current review conference. The current zero draft contains a proposal to "consider the need" to hold a second FfD conference by 2013, a commitment the G-77 wants to make more definite. The zero draft also contains an equally unappetizing proposal to "strengthen" the intergovernmental FfD process, which is code for perpetual UN negotiations on the topic. Few developed countries are enthusiastic about either proposal, but the default position in the UN invariably is to hold another conference.

¶11. (C) We are skeptical as to whether holding a second review conference in 2013 is in the U.S. interest. The logic of the current process is biased towards watering down E

the important commitments by developing countries to manage their economies properly and create an enabling environment for growth. This is because the U.S. and like-minded countries have not sought new commitments above those in the Monterrey Consensus, but on each specific policy issue, at least a few of the G-77 members want more flexibility. These commitments, in the sections of the document dealing with domestic resource mobilization, private financial flows, debt, and trade, are the prime Monterrey takeaways for the U.S., because they gave us additional certainty that our assistance dollars would not be wasted in countries with poor economic policies. A related problem is that it is very difficult to focus on country-level commitments in a

multilateral process.

¶12. (C) There is also strong pressure from a range of countries to shift the focus of the FfD process to issues we view as tangential to the core economic and governance policy messages of Monterrey, such as gender, the status of middle-income countries, climate change, and the food security crisis. We expect the result of all these pressures will be, most likely, a weakening of the most important portions of the document coupled with an increase in emphasis on issues we view as less central to financing for development. This is obviously not an ideal outcome for the U.S., and we have no reason to believe that a second review conference would be any different.

¶13. (C) Rather than rejecting a second review conference outright, the U.S. has tabled an alternative follow-up proposal that is more decentralized and holds open larger roles for the private sector and non-UN actors. Winning acceptance of this proposal will be very tough.

Comment: Strong USG Effort to Date

¶14. (C) USUN has received outstanding support from Washington agencies throughout the 10-month FfD process, and the U.S. has consistently been the best-prepared delegation. However, if we are unable to wrap up negotiations by November 26, it will be important to maintain a high degree of policy coordination at the Doha conference itself. A strong interagency economic team at Doha will be essential.

Khalilzad